

ISSUED 09 AUGUST 2019

PROVIDER SECTOR  
**Sanlam**

# FINANCIAL STRENGTH ASSESSMENT

Analysis by **AKG Financial Analytics Ltd**  
Accessible • Comparative • Independent

**AKG**



## ABOUT THIS FINANCIAL STRENGTH ASSESSMENT

This AKG report and the analysis and ratings contained within it provide assessment of financial strength and associated considerations. Financial Strength is focused on the ability of a company to deliver ongoing operational capability in the interest of its customers and in line with their fairly held expectations. AKG's perspective in the assessment of financial strength is wholly that of a customer of a product or service. From that foundation, this analysis is specifically designed to inform financial advisers and assist in their required understanding of a company's operational financial strength.

Given the underlying customer perspective, the financial strength of companies needs to be focused at an operational level (i.e. the elements and functions of an organisation which operate to specifically deliver and manage a proposition or service to the customer), specifically on the company that is effecting the product or service that a customer is selecting. This is important, because from the customer's perspective it is that company that needs to survive in a form that maintains the requisite operational characteristics to meet their fairly held requirements. And it is thus at this level that the selection needs of the customers' advisers must be met. This contrasts to credit rating, which will be undertaken at group or parent company level where investment or debt placement etc. is made.

Further details on how analysis is undertaken is provided at the end of this report and may also be obtained from AKG.



## TABLE OF CONTENTS

<b>Rating &amp; Assessment Commentary</b> .....	<b>3</b>
Ratings.....	3
Summary.....	3
Commentary.....	3
<b>Group &amp; Parental Context</b> .....	<b>5</b>
Background.....	5
Group Structure (simplified).....	6
<b>Company Analysis: Sanlam Life &amp; Pensions UK Ltd</b> .....	<b>7</b>
Basic Information.....	7
Operations.....	8
Strategy.....	10
Key Company Financial Data.....	11
<b>Guide</b> .....	<b>15</b>
Introduction.....	15
Rating Definitions.....	15
About AKG.....	18



## CONTACT INFORMATION

AKG Financial Analytics Ltd, Anderton House, 92 South Street, Dorking, Surrey, RH4 2EW  
Tel: +44 (0) 1306 876439 Email: [akg@akg.co.uk](mailto:akg@akg.co.uk) Web: [www.akg.co.uk](http://www.akg.co.uk)

## Rating & Assessment Commentary



### RATINGS

#### Overall Financial Strength



#### Additional Financial Strength and Supporting Ratings

	Non Profit Financial Strength	Unit Linked Financial Strength	With Profits Financial Strength	Service	Image & Strategy	Business Performance
Sanlam Life & Pensions UK Ltd	★★★★	★★★★	■	★★★	★★★	★★★



### SUMMARY

- Founded in 1918, the parent company Sanlam has evolved over the last 100 years from a traditional insurer to a diversified financial services provider with both local and international footprints
- Sanlam UK's vision is to 'make Sanlam a leading provider of wealth and investment management services in the UK'
- Sanlam Life & Pensions UK Ltd forms an important part of the unified Sanlam UK group, with a key role in delivering insurance products and wrappers both within the increasingly integrated group and out into the wider market
- Benefit of stable management and strategy demonstrated by consistent profit and solvency positions



### COMMENTARY

#### Financial Strength Ratings

##### Sanlam Life & Pensions UK Ltd

Reporting on a Solvency II basis, Sanlam Life & Pensions UK Ltd (SLP) reported a consistent solvency coverage ratio of 142% as at 31 December 2018 [2017: 142%], within its target range of 130% to 170%, with no recourse to any capital relief measures. The company also operated profitably in 2018.

SLP forms an important part of the unified Sanlam UK group, operating under a new Chief Executive since January 2016, tasked with executing the vision of 'making Sanlam a leading provider of wealth and investment management services in the UK'. Notwithstanding its exposure to changes in group strategy, AKG would also expect parental support to be forthcoming (at least in the short term), given its established reputation in its niche and its continuing profitability.

Growth in other components of the UK business, such as its distribution operation, also has beneficial characteristics for the life and pensions operation.

## Service Rating

Sanlam has always maintained a reputation for technical service with an ability to deal well with the needs of more complex aspects of pensions administration. Maintaining this, whilst also extending it to other product areas and different approaches to the market and delivering a successful period of implementation and development within a more united group, will be a key success factor for the company.

The company's business is administered on its own internally maintained IT system (MIDAS). A version of the onshore bond is provided through the Nucleus platform, and is in turn administered by Genpact.

Specific recent development actions include the re-engineering of the back office architecture to simplify operations and rationalise certain product propositions, whilst facilitating the development of others. The bond is also delivered to the market through 7IM and Parmenion, with other similar arrangements anticipated.

Most significantly following a review in 2017, new underlying platform technology was introduced in the first quarter of 2019 for both the Life & Pensions and Wealth operations. This, together with other developments, will position the business better to take advantage of product opportunities and enable further partnerships, not least in increasingly digital client solutions.

## Image & Strategy Rating

SLP's image has been established partly as a result of its individual background and more recently as a result of its role within the Sanlam group and adoption of the group brand. As Merchant Investors the company had something of a staccatoed evolution with some challenging periods up to its acquisition by Sanlam. However, throughout it enjoyed positive associations of product innovation and quality service propositions. This looks to have been continued under its ownership by Sanlam.

Whilst not a consumer financial brand in the UK, and even relatively modest in terms of recognition amongst users in the financial services sector, the Sanlam brand now brings positive attributes for the company's image and further brand visibility is planned. By means of look through to South Africa the group can demonstrate a strong market capitalisation (c£6bn), over 100 years of operation and a presence in 44 countries.

As part of a group strategy, that has the UK as a key developed market within a mix of different operating environments, its strategy has delivered a vertically integrated business model. This brings together the four UK businesses of: Sanlam Investments & Pensions, Sanlam Private Wealth, Sanlam Wealth Planning & Sanlam Investments. To which Sanlam Private Office was added in 2017. Amongst these businesses SLP plays key strategic roles: delivering tax wrappers and insurance products and maintaining effective administration capability. The strategic integration and the opportunities afforded by it are likely in large part to be determined by its effectiveness.

Initiatives to develop platform relationships, such as those with 7IM and Parmenion are examples of strategic developments that are already contributing to new business volumes, enhancing brand awareness simultaneously.

## Business Performance Rating

SLP reported a consistent pre-tax profit in 2018, with positive changes to assumptions in relation to annuitant mortality and gains on trades in the non-linked asset portfolio offset by lower than expected volumes and higher one off expenses. Operating expenses, up 3%, again remained relatively stable.

The embedded value decreased from £75.9m to £71.5m while total equity increased from £33.8m to £38.9m. The decrease was due to poor equity market performance decreasing the expected value of future charges and as a result of an increase in the expense assumptions.

SLP continued to make capital contributions to Sanlam Financial Services UK Ltd (SFS) to help fund operating losses as it grows its business. SFS recorded a pre-tax loss of £1.0m [2017: £0.8m].

Sanlam UK Ltd (SUK) reported a pre-tax profit of £5.1m [2017: £5.9m], predominantly due to the reversal of investments in a subsidiary of £3.0m [2017: £2.4m] as well as dividends received of £7.0m [2017: £7.4m].

As a UK group the business continues to make progress. Further beneficial investment in growth across its components is anticipated.

## Group & Parental Context



### BACKGROUND

Established in 1918, Sanlam has evolved from a traditional local insurer to a diversified global financial services provider. In 1998 Sanlam demutualised, listing on both the South African and Namibian Stock Exchanges. Sanlam now has a presence in 44 countries, including over 30 African countries. It has a market capitalisation of around £6bn.

Sanlam's operations are managed through five operating clusters: Sanlam Personal Finance - responsible for retail business in South Africa; Sanlam Emerging Markets - Sanlam's financial services offering in emerging markets outside South Africa; Sanlam Investment Group - serving retail and institutional clients in South Africa, the UK and elsewhere in Europe; Sanlam Corporate - covering Employee Benefits, Healthcare and Institutional offerings; and Santam - providing a range of general insurance products and services in southern Africa and internationally and in which Sanlam has a 60% interest.

On 1 July 2015 there was a merger between Sanlam Netherlands Holdings BV and Sanlam Investment Holdings UK Ltd (SIH), which resulted in SIH becoming the parent company of SUK, as a UK company was considered to be the preferred option as a European holding company. The merger also consolidated Sanlam's UK operations under one holding company.

January 2016 saw Sanlam in the UK brought together as Sanlam UK under the leadership of Jonathan Polin. This initiated an integration programme, which is now complete and has involved re-engineering the back office to simplify operations, product rationalisation and has included a number of senior management changes.

In the UK, Sanlam's principal operating companies are:

- Sanlam Wealth Planning UK Ltd (SWP) - providing advice for private and corporate clients
- Sanlam Life & Pensions UK Ltd (SLP) - providing product and portfolio services and the main focus of this report
- Sanlam Investment Holdings UK Ltd (SIH) - providing investment management services
- Sanlam Private Investments (UK) Ltd (SPI) - Sanlam Private Wealth, providing discretionary investment management and stockbroking services and which also trades as Sanlam Private Office, providing a sub-full family office style approach for HNW client families and individuals
- Sanlam Financial Services UK Limited (SFS) - a provider of administration and client money handling services to group companies
- Sanlam UK Ltd, an appointed representative of SLP, SFS and SPI, and
- Sanlam Trustee Services UK Ltd (STS) - Trustee of the Sanlam Personal Retirement Scheme.

Sanlam also has a non-controlling interest of around 52% in Nucleus Financial Group, a platform provider. Sanlam sold its interests in Punter Southall in 2013 and in Intrinsic in 2014.

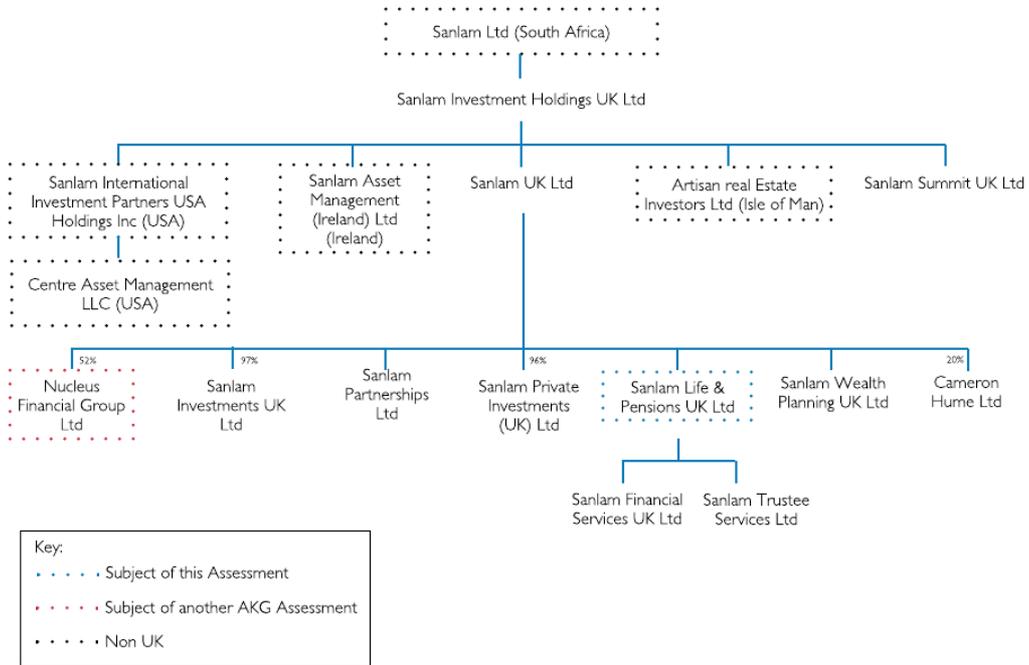
At European group level, the solvency capital requirement for SIH was £52.8m [2017: £60.8m] and own funds stood at £84.7m [2017: £103.3m] as at 31 December 2018, giving a capital coverage ratio of 161% [2017: 170%], at the upper end of the 130-170% target range.

As at 31 December 2018, Sanlam reported a South African group Solvency Assessment and Management (SAM) coverage ratio remained at 2.6 times.

Sanlam UK has around £12bn of assets under management. Worldwide, Sanlam has total assets under management of around £50bn. Nucleus, which successfully completed a listing in July 2018, has around £1.5bn of assets held on its platform.



GROUP STRUCTURE (SIMPLIFIED)



# Company Analysis: Sanlam Life & Pensions UK Ltd



## BASIC INFORMATION

### Company Type

Life Insurer

### Ownership & Control

Sanlam Ltd (South Africa)

### Year Established

1970

### Country of Registration

UK

### Head Office

St Bartholomew's House, Lewins Mead, Bristol, BS1 2NH

### Contact

[www.sanlam.co.uk/contact-us](http://www.sanlam.co.uk/contact-us)

### Key Personnel

Role	Name
Chief Executive Officer, Sanlam UK	J C Polin
Chief Finance Officer, Sanlam UK	J P Gibson
Head of Distribution, Sanlam UK	R Pursglove
Chief Operating Officer, Sanlam UK	D J Mason
Chief Executive Officer	N A Parry
Chief Finance Officer	P G White
Chief Risk Officer	L Laird
Chief Actuary	W B Friend
Chief Executive Officer, Sanlam Investments	A Tagliabue
Chief Executive Officer, Sanlam Wealth Management	J White
Head of Sanlam Private Office	P Lovell

### Company Background

The company was set up in 1970 as Old Broad Street Securities Assurance Ltd, and renamed Merchant Investors Assurance Company Ltd in 1974. In 1987 it became a subsidiary of the MI Group, at which stage Allianz had a 50% shareholding - taking a majority controlling interest in 1990. In 1992 it closed to new business and transferred its salesforce to Citibank Life. It re-entered the intermediary market in 1994.

In December 2003, SLP was acquired by Sanlam Ltd, via the holding company SUK, as part of a strategy to open up new business opportunities in the UK. It was renamed Sanlam Life & Pensions UK Ltd in April 2011. SLP, together with its subsidiary, Sanlam Financial Services UK Ltd (SFS), now trade under the Sanlam brand, together with Sanlam's other UK operations.



## OPERATIONS

### Governance System and Structure

During 2016, the companies that are owned and managed under SUK undertook an integration planning exercise to provide a co-ordinated operational, control and governance structure for the UK group. This was implemented in line with a review performed by an external party, with the key strategic development and governance now taking place at the Sanlam UK level, with a board structure consistent with that of SIH with the exception of the Sanlam Asset Management (Ireland) Ltd (SAMI) executives.

Key oversight committees with independent NED governance report directly to the SUK board. They represent Audit and Risk, with an independent NED Chairperson.

The Heads of Risk, Compliance and Internal Audit, and an HR committee have direct reporting links to the committees.

The subsidiary boards are now executive boards, charged with the strategic delivery of group objectives and operational oversight. The SLP board has been constituted in a manner that ensures a degree of independence from the SUK board, with both executive and SA group members that are exclusive to this business. SLP also retains its own Audit, Actuarial and Risk Committee.

Operational structures have also been revised, with the business moving towards a divisional structure for the group supported by central service functions.

In 2017 a 'Customer Interest Committee' was established in response to the fair treatment of legacy customers initiative. A review of all product lines was completed with no material issues having been identified apart from a need to improve communications and reduce the 'gone away' rate.

SLP states that there were no material changes to its business and performance, system of governance, risk profile, valuation for solvency purposes or capital management during 2018.

### Risk Management

The company's risk management framework uses the 'three lines of defence' model.

The first line is risk management - the primary responsibility of front line managers and the Executive Committee rather than the Risk Function. Front line managers are responsible for identifying and evaluating risks to the business and the customer and for designing and operating suitable controls in line with the agreed risk limits set by senior management.

The second line is risk oversight, which consists of independent oversight of the risks as well as centralised policy management, which can range from aspects such as setting and ensuring compliance with overall policies, standard and limits, through to providing leadership in the development and implementation of risk management techniques. This role is performed by the Risk Function and, in the case of Conduct Risk, the Compliance Function.

The third line of defence is risk assurance, independent assurance from 'neutral' parties that the risk management framework is operating effectively. This is provided by the Board and its sub-committees, assisted by the internal audit and external auditors.

The risk management process consists of five primary tasks:

- Risk identification
- Risk assessment
- Risk treatment
- Monitoring
- Reporting

A risk management maturity model is in place across the Sanlam group with the aim of improving effectiveness and efficiency of Enterprise Risk Management on an ongoing basis.

SLP is predominantly a unit linked business, but with some annuity business and a legacy defined benefit scheme. Persistency and market risks, arising from the unit linked business are therefore dominant. However, longevity (from annuities) and asset liability matching (in the pension scheme) risks will be material for a number of years.

### Administration

Sanlam has always maintained a reputation for technical service with an ability to deal well with the needs of more complex aspects of pensions administration. Maintaining this, whilst also extending it to other product areas and different approaches to the market and delivering a successful period of implementation and development within a more united group, will be a key success factor for the company.

The company's business is administered on its own internally maintained IT system (MIDAS). A version of the onshore bond is provided through the Nucleus platform, and is in turn administered by Genpact.

Specific development actions include the re-engineering of the back office architecture to simplify operations and rationalise certain product propositions, whilst facilitating the development of others.

The company has offered a range of online service components for a number of years and there is specific focus on improving digital engagement based on the premise that any business that is paper based will soon become irrelevant. There is an increasing use of automation and robotics in Life & Pension administrative processes.

A new Sanlam website launched in 2018 with defined customer journeys and improved content.

Real time valuations are available through the Exchange Adviser Office software. The Sanlam Portal, launched June 2011, is an end to end solution that provides the client with access to the Model Portfolio Service and the Select Fund Service through a range of products (GIA, ISA, personal pensions and onshore bond).

### Benchmarks

The company's OneSIPP product is 5 star rated by Defaqto.

Whilst the business has a good reputation for technical service support in its niche, it has not fared well in general service awards in recent years, with 3, 2, and 1 stars respectively in the Financial Adviser Service Awards from 2015 to 2017, and did not feature in 2018.

### Outsourcing

The company does not make major use of outsourcing beyond the group context. Within which, for example, fund administration and unit pricing of certain insured funds is outsourced to Curo Fund Services (Pty) Ltd, a 50/50 joint venture between its Sanlam parent and Old Mutual in South Africa. Most recently a multi-year deal with BNY Mellon's Pershing for running the custody services on its investments.

Distribution and administration of the Nucleus bond has been outsourced to Nucleus Financial Services Ltd.

Certain aspects of the Sanlam Portal, such as the execution and transmission of orders and safekeeping and administration of financial instruments, are provided by Cofunds.



## STRATEGY

### Market Positioning

SLP re-launched in the independent intermediary market in 1994 and since then the majority of distribution has been via intermediaries. This approach has targeted key regional and fee charging intermediaries, servicing the high net worth and mass affluent market. Now operating more concertedly as a component of the wider Sanlam group in the UK, this intermediary channel is complemented by a number of other routes to market. These being:

- The Sanlam owned advisory business
- SWP via Sanlam Distribution
- Platform (including the majority Sanlam owned Nucleus and most recent partnerships with 7IM and Parmenion)
- A direct option, which currently accommodates annuities, top-ups and any orphan clients

SLP relies heavily on SWP for its new business volumes, but diversification is achieved by working with Sanlam distribution to seek volume from IFAs. Within these four channels each has recognised potential for increased development and penetration. And a number of initiatives are underway to enhance product propositions, including developing an at retirement product set to encourage retention. Current experience shows persistency rates of around 95% across the in force book, and there is a focus on making a number of enhancements to the customer at retirement experience including the pensions maturity process.

Sanlam UK have continued to make acquisitions to supplement the growth ambitions of the group, with deals announced in 2018 for Ergowearth and in 2019 for Astute Wealth Management, Blackett Walker and Thesis Asset Management. In addition to bringing assets and client relationships into the group, it enables Sanlam UK to develop its vertically integrated advice, platform and funds business

### Proposition

The Sanlam UK group's vision is to be a leader in client-centric wealth management within the UK market. SLP's main role within Sanlam UK is that of a life insurance and investment administrative services provider. To deliver this, the company focuses on the provision of specialist investment wrappers to affluent and high net worth clients through offering open architecture and self-investment choice. Products in the Specialist Range are the Onshore Bond, the OneSIPP and the Transfer Pension Portfolio.

In addition SLP (with its subsidiary SFS) offers the Portal suite of 'vanilla' investment wrappers (ISA, GIA, Onshore Bond and Personal Pension) aimed at the mass affluent market through Sanlam model portfolios combined with its own investment platform, Sanlam Portal.

December 2012 saw SLP withdraw its offshore bond (issued in partnership with RL360°), its Investment Portfolio and its 'Zest Solutions' proposition as a consequence of the RDR. From December 2012, the company has also been providing a version of its onshore bond to the Nucleus Group. Ongoing investment continues to be made in enhancing SLP's products, systems and service.

SLP's assets are managed by SAMI and Sanlam Investments UK (linked assets); Cameron Hume (non linked portfolio) and Sanlam Private Wealth (shareholder portfolio).

In July 2010 SLP launched Accel, an investment process which combines asset allocation with fund selection to create a range of model portfolios based on different attitudes to risk, identified through the Accel Risk Profiler. The Model Portfolio Service (MPS) is an investment service that is available where a risk graded Model Portfolio is chosen, which will be managed by a Discretionary Investment Manager. If chosen, 100% of the funds must be invested in a single model portfolio. The MPS can be run in line with the Sanlam Portfolio Solutions benchmarks. The MPS is only available where the relevant legal agreements are in place with the Discretionary Investment Manager.

The company's unit linked products are supported by the Pinnacle range of over 170 funds from over 45 external providers, in addition to a number of in-house funds. Investment management of SLP's unit linked funds is outsourced to a sister operation, SAMI, which in turn has appointed Sanlam Investments to run segregated mandates with both in house and external asset managers. Managed funds are also the main investment choice for SLP's legacy products.



## KEY COMPANY FINANCIAL DATA

Last 3 reporting periods up to 31 December 2018

## Assets

	Dec 16 £m	Dec 17 £m	Dec 18 £m
Fixed interest	95	96	97
Equities	0	0	0
Collectives	0	0	0
Property	0	0	0
Linked	2,473	2,662	2,513
Derivatives	0	0	0
Loans and mortgages	0	0	0
Reinsurance recoverables	(7)	(7)	(7)
Cash	5	10	9
Other	30	30	26
<b>Total Assets</b>	<b>2,596</b>	<b>2,791</b>	<b>2,639</b>

## Liabilities

	Dec 16 £m	Dec 17 £m	Dec 18 £m
Technical provisions - non-life	0	0	0
Technical provisions - health (similar to life)	0	0	0
Technical provisions - life	91	88	79
Technical provisions - linked	2,399	2,590	2,470
Other	43	43	27
<b>Total Liabilities</b>	<b>2,533</b>	<b>2,721</b>	<b>2,576</b>
<b>Excess of assets over liabilities</b>	<b>63</b>	<b>70</b>	<b>63</b>

Assets, predominantly linked in nature concomitant with the nature of the business, decreased by 5% in 2018. Similarly liabilities decreased by 5%.

## Life &amp; Health SLT Technical Provisions

	Dec 16 £m	Dec 17 £m	Dec 18 £m
Insurance with profit participation	0	0	0
Linked insurance	2,399	2,590	2,470
Other life insurance	91	88	79
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health insurance	0	0	0
Health reinsurance	0	0	0
Life reinsurance	0	0	0
<b>Total life and health SLT technical provisions</b>	<b>2,490</b>	<b>2,678</b>	<b>2,549</b>

## Life Expenses

	Dec 16 £m	Dec 17 £m	Dec 18 £m
Health insurance	0	0	0
Insurance with profit participation	0	0	0
Linked insurance	26	26	24
Other life insurance	1	1	1
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health reinsurance	0	0	0
Life reinsurance	0	0	0
Other expenses	0	0	0
<b>Total life expenses</b>	<b>27</b>	<b>26</b>	<b>25</b>

The dominance of linked business is clear to see in the above table, accounting for 97% [2017: 97%] of technical provisions and life expenses.

**Solvency Capital Requirement (SCR)**

	Dec 16 £m	Dec 17 £m	Dec 18 £m
Market risk	30	31	25
Counterparty default risk	3	3	2
Life underwriting risk	25	25	24
Health underwriting risk	0	0	0
Non-life underwriting risk	0	0	0
Diversification	(13)	(14)	(12)
Intangible asset risk	0	0	0
Operational risk	3	3	3
Capital add-ons already set	0	0	0
Other items	0	0	0
<b>Solvency capital requirement</b>	<b>47</b>	<b>49</b>	<b>42</b>

**Own Funds**

	Dec 16 £m	Dec 17 £m	Dec 18 £m
Tier 1 unrestricted	63	70	60
Tier 1 restricted	0	0	0
Tier 2	0	0	0
Tier 3	0	0	0
<b>Eligible own funds</b>	<b>63</b>	<b>70</b>	<b>60</b>
<b>Excess of own funds over SCR</b>	<b>16</b>	<b>21</b>	<b>18</b>
<b>SCR coverage ratio (%)</b>	<b>133.6</b>	<b>141.9</b>	<b>141.8</b>

The company uses the Standard Formula to assess its solvency capital requirements.

The most significant component risks of the company's undiversified SCR are: underwriting, 47% (primarily persistency - 28% and longevity - 11%); market, 36% (primarily equity - 25% and currency - 10%) and credit, 13%. The decrease in SCR is mainly due to a decrease in market risk. Equity risk has decreased due to the level of equity markets being lower than expected at the end of December 2018.

Own funds are entirely Tier 1 unrestricted capital consisting of share capital (£25m) and the reconciliation reserve (£35m). Assumptions for expenses have been updated to reflect the latest experience, this change led to an increase in the technical provisions and a fall in own funds.

At 141.8% [2017: 141.9%] the steady SCR coverage ratio remains within the company's target range of 130-170%, with no recourse to any capital relief measures.

At group level, Sanlam reported an SCR coverage ratio of 215% [2017: 220%], and remains above the target range of 170-200%.

### Gross Life Premiums Written By Line of Business

	Dec 16 £m	Dec 17 £m	Dec 18 £m
Health insurance	0	0	0
Insurance with profit participation	0	0	0
Linked insurance	4	204	204
Other life insurance	0	1	0
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health reinsurance	0	0	0
Life reinsurance	0	0	0
<b>Total gross life premiums written</b>	<b>4</b>	<b>205</b>	<b>204</b>

### Gross Life Premiums Written By Country

	Dec 16 £m	Dec 17 £m	Dec 18 £m
Home country	4	205	204
Country 1	0	0	0
Country 2	0	0	0
Country 3	0	0	0
Country 4	0	0	0
Country 5	0	0	0
Other countries	0	0	0
<b>Total gross life premiums written</b>	<b>4</b>	<b>205</b>	<b>204</b>

The tables above have been prepared on an IFRS basis in 2016, under which premiums and claims are only recognised for insurance business as defined under IFRS. The vast majority of the company's business is defined as investment business and is therefore excluded in this year.

Between 2017 and 2018, the company's new business volumes increased marginally from £183.1m to £183.4m. The total decrease including SFS was 17% from £261.6m to £216.4m. The decrease was primarily due to lower volumes being sold by SLP's distribution partners during the year with leakage away from the Sanlam Portal to other platforms.

### Profit

	Dec 16 £m	Dec 17 £m	Dec 18 £m
<b>Profit (loss) before taxation</b>	<b>0</b>	<b>5</b>	<b>6</b>
Taxation	0	(1)	(1)
<b>Profit (loss) after taxation</b>	<b>0</b>	<b>5</b>	<b>5</b>
Other comprehensive income	(3)	(1)	0
Dividends	(2)	0	0
<b>Retained profit (loss)</b>	<b>(4)</b>	<b>4</b>	<b>5</b>

### Life Business Flows

	Dec 16 £m	Dec 17 £m	Dec 18 £m
Net life premiums earned	3	204	203
Net life claims incurred	(12)	(30)	(28)
<b>Net flow of business</b>	<b>(9)</b>	<b>174</b>	<b>175</b>

Profit after tax remained at £4.9m in 2018 which was ahead of budget. Although there was a positive change to assumptions in relation to annuitant mortality and a number of gains on trades in the non-linked asset portfolio, these were offset by the impact of lower volumes and equity markets with higher than expected one off expenses.

There was a significant change in tax, from a charge of £6.2m in 2017 to a credit of £6.4m in 2018. The 2018 total tax credit is primarily a reflection of the market downturn experienced during 2018 given that the company's tax profile is driven by its investment assets' performance. A tax loss of c. £30m was suffered in connection with the pool of collective investments held. This had the combined impact of significantly reducing the current year tax charge and the carried forward deferred tax liabilities.

The embedded value decreased from £75.9m to £71.5m, while shareholder's funds increased from £33.8m to £38.9m. The decrease was due to poor equity market performance decreasing the expected value of future charges and as a result of an increase in the expense assumptions.

A dividend of £3.0m was proposed for the year to 31 December 2018 [2017: nil].

SLP continued to inject capital (£1m in 2016, 2017 and 2018), into SFS in order to fund ongoing, but reducing, losses as the business matures.

As per the previous tables, premiums and claims for 2016 relate to insurance business only as defined under IFRS, hence the reductions in that year.

## Guide



### INTRODUCTION

For over 20 years AKG has particularly focused on the financial strength requirements of financial advisers, who when acting on behalf of their clients, need to ascertain a company's ability to deliver sustained provision.

From this customer perspective, the financial strength of companies needs to be focused at an operational level, specifically on the company that is effecting the product or service that a customer is selecting. This is important, because from the customer's perspective it is that company (not some higher corporate entity) that needs to survive in a form that maintains the requisite operational characteristics to meet their fairly held requirements. And it is thus at this level that the selection needs of the customers' advisers must be met.

It is also important to understand the sector approach (comparative peer groups) that is adopted in financial strength assessment and rating process.

At AKG, this is again driven by the end customer perspective and the fact that assessment is designed solely for this purpose, i.e. as a component in helping customers' advisers to select between comparable companies competing to deliver relevant products or services.

AKG's focus and approach has remained consistent over the years since it commenced assessment and rating support for the market. However, coverage, format and presentation has rightly evolved over this period, in line with the needs and expectations of assessment and rating users in the market. And AKG considers further changes on a continual basis.

Further details including an explanation of what is included in the assessment reports and coverage can be found online at <https://www.akg.co.uk/information/reports/provider>.

AKG's process for assessment and rating is to use a balanced scorecard of measures and comparative information, relevant to the companies contained within each peer group. This is gathered via Public Information only for non-participatory assessments and public information plus company interactions with companies for participatory assessments. Further details on AKG's process can be found at <https://www.akg.co.uk/information/reports>.

This includes further information on the different participatory and non-participatory basis and for companies wishing to learn more about participatory assessment AKG is pleased to outline this and welcomes contact.

This is a participatory assessment.



### RATING DEFINITIONS

#### **Overall Financial Strength Rating**

The objective is to provide a simple indication of the general financial strength of a company from the perspective of those financial advisers who when acting on behalf of their clients need to ascertain a company's ability to deliver sustained operational provision of products or services.

The overall rating inherently reflects the mix of business within the company, since different types of customer or policyholder have different requirements and expectations, and the company may have particular strengths and weaknesses in respect of its key product or service areas. However, it also takes account of comparison across the sector in which it is assessed.

The rating takes into account those of the following criteria which are relevant (depending upon the company's mix of business in-force): capital and asset position, expense position and profitability, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), operational capability, management

strength and capability, strategic position and rationale, brand and image, typical fund performance achievements or product / service features, its operating environment and ability to withstand external forces.

Rating Scale	A	B+	B	B-	C	D	☐
	Superior	Very Strong	Strong	Satisfactory	Weak	Very Weak	Not applicable

### With Profits Financial Strength Rating

The objective is to provide a simple indication of the with profits financial strength of a company, where it currently offers with profits business or has existing with profits business within it.

This is from the perspective of those financial advisers who when acting on behalf of their clients, for this product type, need to ascertain a company's ability to deliver sustained operational provision of with profits funds, products or propositions. Its comparison is with other companies within the assessment sector that offer or have with profits business.

The main criteria taken into account are: capital and asset position, expense position and profitability, the amount of with profits business in-force, parental strength (and likely attitude towards supporting the company), and image and strategy.

NOTE: More detailed analysis of with profits companies is included in AKG's UK Life Office With Profits Reports.

Rating Scale	★★★★★	★★★★	★★★	★★	★	☐
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

### Unit Linked Financial Strength Rating

The objective is to provide a simple indication of the unit linked financial strength of a company, where it currently offers unit linked business or has existing unit linked business within it. This is from the perspective of those financial advisers who when acting on behalf of their clients, for this product type, need to ascertain a company's ability to deliver sustained operational provision of unit linked products or propositions. Its comparison is with other companies within the assessment sector that offer or have unit linked business.

The main criteria taken into account are: capital and asset position, expense position and profitability, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), operational capability, management strength and capability, strategic position and rationale, brand and image, typical fund performance achievements or product / service features, its operating environment and ability to withstand external forces.

Rating Scale	★★★★★	★★★★	★★★	★★	★	☐
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

### Non Profit Financial Strength Rating

The objective is to provide a simple indication of the non profit financial strength of a company, where it currently offers or has existing products and propositions such as term assurance and annuities. This focuses on the company's ability to deliver sustained operational provision of such non profit products or propositions. Its comparison is with other companies within the assessment sector that offer or have non profit business.

The main criteria taken into account are: capital and asset position, expense position and profitability, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), operational capability, management strength and capability, strategic position and rationale, brand and image, product / service features, its operating environment and ability to withstand external forces.

Rating Scale	★★★★★	★★★★	★★★	★★	★	☐
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

**Service Rating**

The objective is to assess the quality of the organisation's service to the intermediary market in respect of the brand concerned.

Criteria taken into account include: performance in surveys, awards and benchmarking exercises (external and internal), the organisation's philosophy, service charters, the extent of investments designed to improve service, and feedback from intermediaries.

Rating Scale	★★★★★	★★★★	★★★	★★	★	☐
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

**Image & Strategy Rating**

The objective is to assess the effectiveness of the means by which the organisation currently positions itself to distribute its products for the brand concerned and the plans it has to maintain and/or develop its position.

Criteria taken into account include: overall trends in the company's market share position, brand visibility and reputation, feedback from intermediaries and industry commentators, and AKG's view of the company's general strategy.

Rating Scale	★★★★★	★★★★	★★★	★★	★	☐
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

**Business Performance Rating**

This review is an assessment of how the company and the brand has fared against its peers, and how it is perceived externally. Effectively this is how it has performed recently in the market. Whilst it will include performance indicators from the most recent available statutory reporting (report and accounts and SFCRs in the case of insurance companies, for example) it will also draw on other recent key performance elements before and after such disclosure, up to the point at which the assessment is undertaken.

Criteria taken into account include: increase/decrease in market shares, expense containment, publicity good or bad, press or market commentary, regulatory fines, and competitive position.

Rating Scale	★★★★★	★★★★	★★★	★★	★	☐
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

AKG is an independent organisation. Originally established as an actuarial consultancy AKG has, for over 20 years, specialised in the provision of assessment, ratings, information and market assistance to the financial services industry.

As the market has evolved over this period, the range of entities considered by AKG has expanded. Consequently, AKG has brought additional skill sets into its operations. This has meant the inclusion of accounting, corporate finance, IT and market intelligence experience, alongside actuarial resources, to deliver an expanded professional capability.

Today AKG's core purpose is in the provision of financial analysis and review services to support the wider financial services sector and its customers.

#### © AKG Financial Analytics Ltd (AKG) 2019

This report is issued as at a certain date, and it remains AKG's current assessment with current ratings until it is superseded by a subsequently issued report or subsequently issued ratings (at which point the newly issued report or ratings should be used), or until AKG ceases to make such a report or ratings available.

The report contains assessment based on available information at the date as shown on the report's cover and in its page footer. This includes prior regulatory data which may have an earlier date associated with it, but the report also takes into account all relevant events and information, available to and considered by AKG, which have occurred prior to this stated cover and footer date. Events and information subsequent to this date are not covered within it, but AKG continually monitors and reviews such events and information and where individually or in aggregate such events or information give rise to rating revision an updated report under an updated date is issued as soon as possible.

All rights reserved. This report is protected by copyright. This report and the data/information contained herein is provided on a single site multi user basis. It may therefore be utilised by a number of individuals within a location. If provided in paper form this may be as part of a physical library arrangement, but copying is prohibited under copyright. If provided in electronic form, this may be by means of a shared server environment, but copying or installation onto more than one computer is prohibited under copyright. Printing from electronic form is permitted for own (single location) use only and multiple printing for onward distribution is prohibited under copyright. Further distribution and uses of the report, either in its entirety or part thereof, may be permitted by separate agreement, under licence. Please contact AKG in this regard or with any questions: [akg@akg.co.uk](mailto:akg@akg.co.uk), Tel +44 (0) 1306 876439. AKG has made every effort to ensure the accuracy of the content of this report and to ensure that the information contained is as current as possible at the date of issue, but AKG (inclusive of its directors, officers, staff and shareholders and any affiliated third parties) cannot accept any liability to any party in respect of, or resulting from, errors or omissions. AKG information, comments and opinion, as expressed in the form of its analysis and ratings, do not establish or seek to establish suitability in any individual regard and AKG does not provide, explicitly or implicitly, through this report and its content, or any other assessment, rating or commentary, any form of investment advice or fiduciary service.



AKG Financial Analytics Ltd  
Anderton House,  
92 South Street,  
Dorking,  
Surrey  
RH4 2EW

Tel: +44 (0) 1306 876439  
Email: [akg@akg.co.uk](mailto:akg@akg.co.uk)  
Web: [www.akg.co.uk](http://www.akg.co.uk)  
© AKG Financial Analytics Ltd 2019

**AKG**